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SAFEWAY STORES, INCORPORATED · ANNUAL REPORT 1964

SAFEWAY STORES, INCORPORATED

EXECUTIVE OFFICES

Fourth and Jackson Streets, Oakland, California
(P.O. Box 660, Oakland, California 94604)

TRANSFER AGENTS

The Chase Manhattan Bank, New York,
New York and the Crocker-Citizens National
Bank, San Francisco, California

REGISTRARS

First National City Bank, New York, New York
and The Bank of California, National
Association, San Francisco, California

ACCOUNTANTS

Peat, Marwick, Mitchell & Co.

EXECUTIVE COMMITTEE

ROBERT A. MAGOWAN
Chairman

ERNEST C. ARBUCKLE

CHARLES DE BRETTEVILLE

ROGER D. LAPHAM, JR.

MILTON L. SELBY

DIRECTORS

ROBERT A. MAGOWAN
Chairman of the Board and President

ERNEST C. ARBUCKLE
Dean, Graduate School of Business, Stanford University

J. G. BOSWELL II
President and Director J. G. Boswell Company

NORMAN CHANDLER
Chairman of the Board and President The Times Mirror Company

HENRY B. CLAY
Senior Vice President

CHARLES DE BRETTEVILLE
Chief Executive Officer, President and Chairman of Executive Committee The Bank of California, N.A.

HUGH FROST
Vice President

ARTEMUS L. GATES
Business Consultant

A. RUSSELL GRIFFITH
Vice President and Controller

ROGER D. LAPHAM, JR.
President and Director of Alexander, Sexton & Carr of California and Executive Vice President and Director of Alexander, Sexton & Carr, Inc.

MICHAEL W. MCCARTHY
Chairman of the Board and Chief Executive Officer Merrill Lynch, Pierce, Fenner & Smith, Inc.

WILLIAM S. MITCHELL
Senior Vice President

QUENTIN REYNOLDS
Senior Vice President

MILTON L. SELBY
Consultant to the Company

JACK I. STRAUS
Chairman of the Board R. H. Macy & Co., Inc.

OFFICERS

ROBERT A. MAGOWAN
President and Chairman of the Board

HENRY B. CLAY
Senior Vice President
Regional Retail Manager

WILLIAM S. MITCHELL
Senior Vice President
Supply Operations

HUGH FROST
Vice President
Real Estate, Construction and Engineering

MALCOLM P. GROVER
Vice President
Personnel, Public Relations and
Economic Research

A. RUSSELL GRIFFITH
Vice President and Controller
Accounting and Finance

QUENTIN REYNOLDS
Senior Vice President
U.S. Retail Operations,
Advertising, Market Research
and Grocery Merchandising

R. L. CAMPBELL
Vice President
Regional and Denver Division Manager

LORENZO N. HOOPES
Vice President
Supply Division Manager

D. B. KANE
Vice President
Los Angeles Division Manager

G. H. PARKER
Vice President
Regional and San Francisco Division Manager

GLYNN E. TUCKER
Vice President
Non-Foods Division Manager

HERMAN F. WEBER
Vice President
Industrial Relations

J. W. RUPLEY
Treasurer

DRUMMOND WILDE
Secretary and Vice President
General Counsel

ANNUAL MEETING The 1965 Annual Meeting of the Common Stockholders will be held on May 18, 1965. In connection with this meeting, proxies will be solicited by the management. A notice of the meeting, together with a proxy statement and a form of proxy, will be mailed separately to Common Stockholders about April 9, 1965. This Annual Report does not constitute part of the proxy soliciting material.

1964

Where both a Safeway and Safeway Super share same building, common lobby provides customers ready access to either store.

HIGHLIGHTS

	1964	1963
	(53 Weeks)	
Operating Results[1]		
Sales	$2,817,569	2,649,712
Income before provision for income taxes	97,875	94,746
Provision for income taxes	47,895	49,930
Net income	49,980	44,816
Net income as a percent of sales	1.77%	1.69
Distribution of Earnings[1]		
Dividends to preferred stockholders	$ 735	838
Dividends to common stockholders	23,367	20,723
Earnings retained in the business	25,878	23,255
Per Share of Common Stock[2]		
Net earnings	$ 1.95	1.75
Depreciation	1.35	1.28
Cash flow	3.30	3.03
Dividends paid	.92½	.82½
Working capital	5.53	4.78
Book value	12.73	11.71
Price range New York Stock Exchange—Low-High	28-37¾	22¾-32⅜
Financial Position (at end of year)		
Working capital [1]	$ 140,163	120,177
Current assets per dollar of current liabilities	1.89	1.74
Equity of common stockholders[1]	322,501	294,551
Other Statistics		
Number of employees (at end of year)	68,804	66,605
Approximate number of stockholders of record (at end of year)	58,100	58,900
Number of stores (at end of year)	2,099	2,059
Average annual sales per store[1]	$ 1,322	1,250

Note: (1) *In thousands of dollars.*
(2) *Adjusted for 2 for 1 stock split 11/23/64.*

To Safeway Shareholders and Safeway People:

It is a pleasure to report that 1964 was Safeway's best year. Sales and profits were higher than ever before. A brief comparison with 1963 is given on the preceding page. More complete figures, including a 10-year summary, appear in the Financial Report.

On November 12, the Board of Directors voted to split the common stock on a two-for-one basis in the form of a 100% stock dividend. This was the second time the stock has been split in recent years, the last occasion being the three-for-one split in 1957.

At the same time the Directors increased the quarterly dividend on the common stock by declaring a 50¢ per share payment before giving effect to the split. The payment represents an increase of 5¢ a share over the 45¢ quarterly rate that had been in effect and is equivalent to 25¢ per share on the common stock after giving effect to the split. This is the seventh time in the past eight years that the dividend rate has been increased.

During the year, Ernest C. Arbuckle and Quentin Reynolds were elected Directors, increasing the number of Directors to fifteen as authorized by the bylaws. Mr. Arbuckle, who is Dean of the Graduate School of Business at Stanford University and a member of the Advisory Committee on Private Enterprise in Foreign Aid, also was made a member of the Executive Committee. Mr. Reynolds is a Senior Vice President with responsibility for all Safeway United States Retail Operations.

The industry growth pattern of yearly increases in food store sales continued in 1964. Over the years, expenditures in food stores have increased at a faster rate than the population. The result has been higher total and per capita food store sales each year.

Increases have come from both a greater number of items, chiefly non-foods, sold through food stores, and a continuing rise in the standard of eating. The trend in food buying is to better quality, and more buying of convenience foods that are higher priced but require less preparation time.

Despite this trend, the percentage of disposable income spent for food has decreased steadily from 26% in 1947-49 to 19% in 1964. Relatively stable food prices and rising consumer income indicate that the down-trend in share of disposable income spent for food will continue.

This remarkable record of holding the line on costs by all segments of the food industry is not generally known. During 1964 Safeway participated in an industry-wide advertising campaign to make more people aware of what has been accomplished. Theme of the campaign was, appropriately, "Food Is A Bargain."

The larger number and variety of products carried in our warehouses and stores to satisfy customer demands increase the need for better inventory controls and lower cost material-handling methods. Furthermore there are wide variations in the kinds of products demanded by customers in the numerous communities our stores serve. This, in turn, increases the need for a clear understanding of what the customers of each store want, and close tailoring of store stocking plans to those wants.

Those are some of the problems created by the ever-changing developments in food store buying. They are also some of the reasons for our decentralized form of operation. Division Managers, as shown on page 16, are given full responsibility for the operation of stores in their territories. In turn, Store Managers under them, who have a very intimate knowledge of community buying patterns, are given wide latitude in running their stores to satisfy their customers' demands, and are held responsible for results.

Serving customers better, of course, is the key to success. But part of the challenge is in finding ways to do it and still earn a reasonable return on the large investment required within the limitation of the small margin of profit permitted by competition in food retailing. Research is playing an increasingly important part in finding the answers to both parts of the challenge—better customer service and lower operating costs.

Objective of all these activities is to provide better stores, better products, better service—in short, better value in everything we do. This is our program and significant developments in carrying it out during 1964 are covered on the following pages of this report.

This is the same basic program we have been following for several years. With the proven ability of Safeway people to carry it out, as evidenced by the results they have produced, I believe we have every reason to expect continued progress in 1965.

Robert A. Magowan

March 18, 1965
Oakland, California

President and Chairman of the Board of Directors

SAFEWAY'S Best Year 1964

New High in Sales

Another new high in sales was attained by Safeway in 1964. For the 53-week fiscal year, our sales in the United States and Canada reached $2.82 billion, a 6.3% increase over the 52-week year 1963.

Retailing of food and related products is an ever-changing, highly competitive business requiring continued modernization of facilities. During 1964, Safeway opened 154 new supermarkets—134 in the United States, 20 in Canada. We closed 136 older, outmoded grocery stores—122 in the United States, 14 in Canada. This resulted in a net increase of 18 Safeway stores retailing primarily foods. In addition, we opened 22 more of our new Safeway Super $ stores described on pages 10-11.

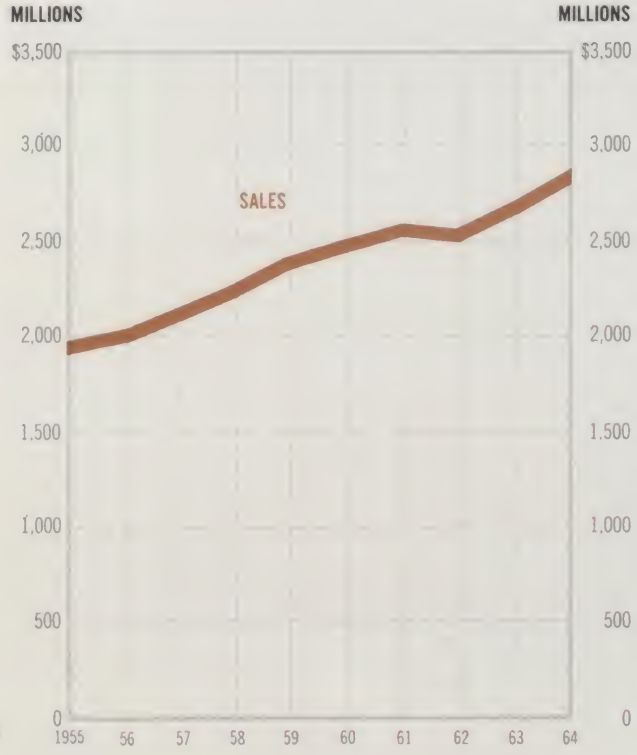
At year-end, we were operating a total of 2099 stores in the U.S. and Canada—2071 Safeway supermarkets and 28 Safeway Super $ stores. Geographic distribution of these stores is shown on pages 16-17.

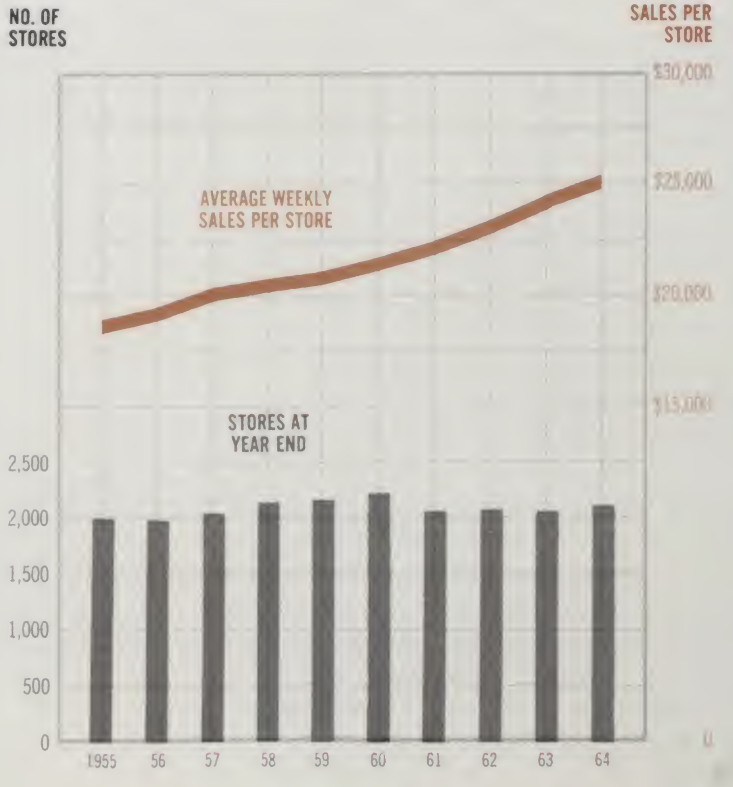
More than a third of our present stores are less than 5 years old, nearly two-thirds are less than 10 years old, and many of the remaining stores have been substantially remodeled. Sales volume per store has increased steadily over the years, with the 1964 average reaching nearly $25,000 per store per week ($1,300,000 per year).

These figures do not include Safeway operations overseas, which are discussed on pages 6-7.

Record Rates of Income

Safeway's 1964 income, both before and after provision for taxes on income, also reached new peaks. For our 53-week fiscal year 1964, pre-tax income totaled $97.9 million; provisions for taxes on income amounted to





$47.9 million; leaving net income after taxes of $50.0 million.

These income amounts are after deducting a $650,000 provision (as in 1963) for conversion to U.S. dollars of our Canadian subsidiaries' increases in net assets during the year, and a $1,447,204 charge to adjust Safeway's investment in our overseas, non-consolidated subsidiaries from our cost to our share of their net worth.

Other adjustments affecting 1964 net income, resulting from changes in investment credit provisions of the Federal Revenue Act, included a $2,525,000 credit against the 1964 provision for Federal taxes with respect to 1964 purchases of equipment, and a further credit of $1,894,007 to reflect the elimination of deferred taxes on the investment credits claimed with respect to the years 1962 and 1963. These credits, along with the 1964 reduction of the U.S. corporate income tax rate, resulted in a 1964 provision for income taxes that amounted to less than half of our pre-tax income, for the first year since 1951.

Safeway's rate of net income (after taxes) as a percent of sales reached 1.77% in 1964, up from 1.69% in 1963, and our best net profit ratio since the early 1930's.

Net earnings applicable to common stock (after preferred share dividends) reached $1.95 per common share in 1964, compared with $1.75 per share in 1963, both stated on a present share basis after adjusting for the two-for-one common stock split (100% stock dividend) in November 1964.

Common share dividends paid during the year 1964 were equivalent to $.92½ per new share, compared with $.82½ in 1963. In November 1964, the annual dividend rate was raised to $1.00 per share on the new stock basis.

More Funds for Growth

During 1964, funds to run and expand operations of the Company were again increased substantially.

In addition to the $50.0 million net income (after taxes), internally generated funds included $35.9 million in charges to income that did not require cash outlays ($34.2 depreciation on Company-owned assets, principally equipment, and $1.7 million in provisions for self-insurance and the adjustment of Canadian asset increases to a U.S. dollar basis).

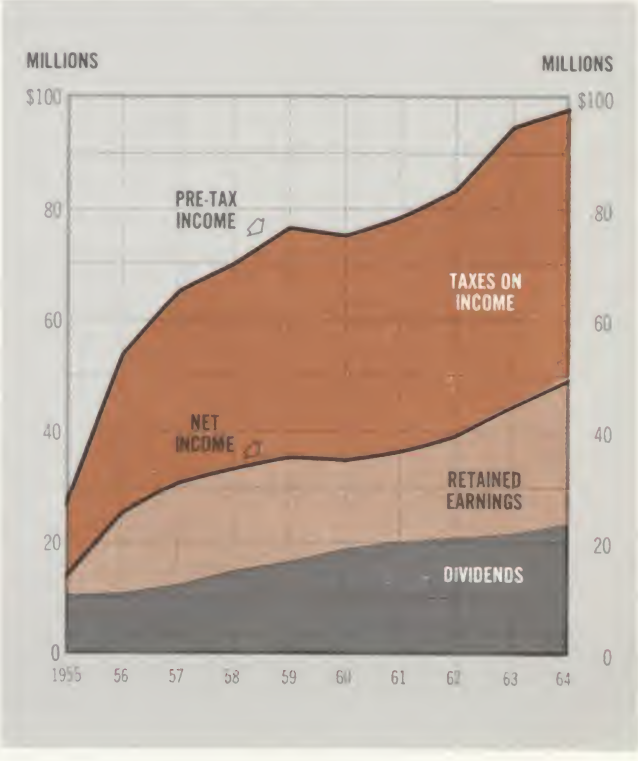
To supplement funds from these internal sources, Safeway in November obtained $30 million from institutional investors evidenced by 4.65% unsecured notes, payable 1970-79, which after retirement of other long term debt during the year resulted in a net inflow of debt funds of $27.0 million for the year 1964.

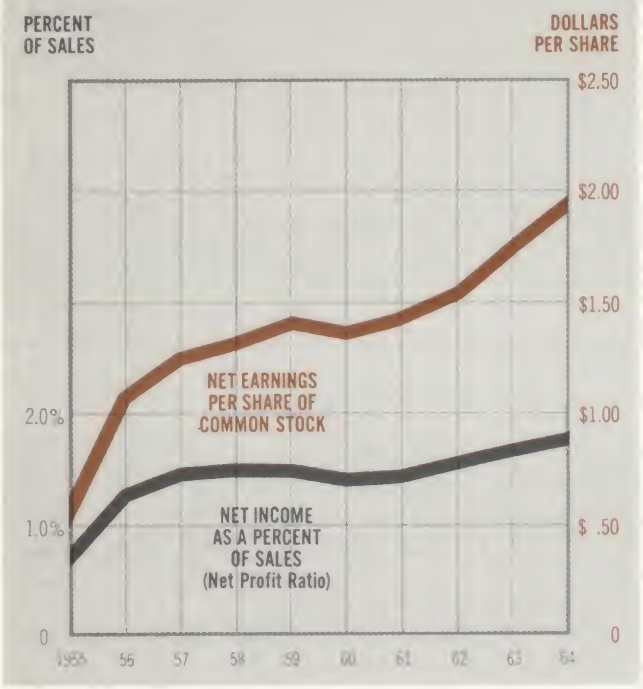
The total of $112.9 million of funds from these sources was used by the Company in 1964 to cover $24.1 million of dividend payments to stockholders, $44.5 million net additions to properties and fixed assets, a $20.0 million increase in working capital, a $17.6 million set-aside of funds for redemption of the Company's remaining preferred stock, and $6.7 million in other applications as shown in the Source and Use of Funds section of the Financial Highlights page of the Financial Report.

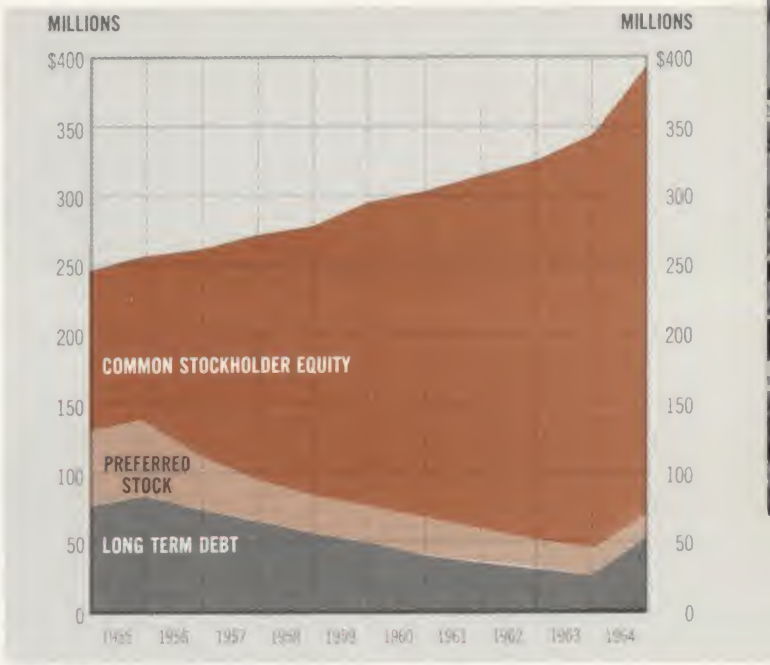
Proud of their remodeled store in Germany, employees pose for family portrait prior to grand opening.

Further Improvement in Common Stockholder Equity

At year-end 1964, our common stockholders' equity in the Company had grown to $322.5 million, compared with $294.5 million a year earlier. On the present share basis, this reflected a book value per common share of $12.73 vs. $11.71 a year ago.







During the year 1964, all the remaining 4.3% convertible preferred stock was either converted into common shares or was redeemed by the Company. Year-end preferred stock outstanding was limited to $17.3 million of the 4% issue.

On April 1, 1965, all remaining 4% preferred stock will also have been redeemed, leaving only common stock in the capitalization of Safeway Stores, Incorporated. Preferred stock of our Canadian subsidiary, amounting to $7.1 million, is carried as a long term liability on the parent Company's books. This, and other items such as deferred income taxes, notes and debentures payable, brought Safeway's total long term debt to $54.1 million at the end of 1964, with the increase over a year earlier primarily attributable to the November placement of 1970-79 notes.

At the end of 1964, working capital had increased to $140.2 million (excluding the funds segregated for 1965 retirement of the preferred stock), with the ratio of current assets to current liabilities rising to 1.89 from 1.74 a year earlier.

Overseas Operations Expanded

Safeway first extended its foreign retail operations to Canada in 1929, and beyond Canada in 1962. Substantial progress has since been made in three overseas countries.

In the United Kingdom, we started with a small nucleus of stores in the London area through our 1962 affiliation with John Gardner (London) Limited. By the end of 1964, we had 19 stores in operation, located in various parts of the Midlands and Southeast England as well as in the Greater London area. 1965 will see a continuation of our building program, including extension of Safeway operations to Scotland.

Our 1963 entry into Australia was through purchase of controlling interest in the 3-store Pratt's supermarket

First Safeway store in Southampton, England, opened in June. Seaport community heralded event.

Surrounded by 15th-16th century buildings, Safeway store opened in Shrewsbury, England, August 1964.

Some 11,000 shoppers greeted the opening of our store in Forest Hills, Melbourne.

chain in suburban Melbourne. Subsequent acquisitions, plus the opening of two Safeway-built supermarkets during 1964, have brought the current total to 9 stores. Several additional sites in the metropolitan Melbourne area are being developed.

In 1963 Safeway purchased the two stores of the Big Bär Basar firm of Hamburg, West Germany. Another new supermarket was constructed in the same area during 1964, bringing the year-end total to 3 stores. Other sites are also in the pipeline in that area.

Thus, our overseas operations included 31 stores at the end of 1964. While typically smaller than most new supermarkets in the U.S. or Canada, these stores are being equipped and operated along the same modern lines that have proved successful here, with modifications to tailor the selection of merchandise, the services, and the facilities of each store to meet the particular demands and customs of the local population. For example: every-day shopping is common in many of the foreign areas, which requires more checkstands for a given volume to handle the heavier customer traffic; foreign shoppers buy more bacon and sausage, less red meat; there is less emphasis on frozen foods and *large economy* sizes because of more limited home storage space; fewer customers shop by car, so accessibility to pedestrian and public transportation routes is important.

Store in Blackfen, England, has parking facilities, but mothers with prams have their own park-'n-shop ideas.

Consumer surveys have demonstrated an enthusiastic response in each of these overseas countries to our American type of modern self-service retailing. Customer acceptance of Safeway operations and service has been gratifying, and our overseas customers are also showing favorable reactions to the introduction of Safeway brands in selected product lines.

A successful international operation depends on adapting established *know-how* to meet the particular local conditions in each country. We therefore plan to continue our program of *cross-pollination* of our information and our people, to get the utmost advanatge from their combined talents. Close liaison will continue to exist between Safeway's Administrative Office specialists and their foreign counterparts, permitting simultaneous introduction of proven modern methods wherever we may operate stores. The future for Safeway's international operations looks bright.

In our financial accounts, sales and other operating results of our overseas subsidiaries have not been consolidated with those of Safeway Stores, Incorporated (as is done with our Canadian operations), because the amounts involved are not yet considered material in size. Safeway's interests in the overseas subsidiaries are carried as investments, which amounted to $10.2 million at the end of the year.

A typical wall-to-wall occupancy of a Safeway store and Safeway Super store in San Jose, California.

Research Points the Way

Automatic doors swing or slide open more than a million times a day for customers entering our stores. Most are old friends who have been customers for a long time, but many are newcomers visiting a Safeway store for the first time. Every one of them expresses satisfaction or dissatisfaction in a very positive way by either returning or not returning. Some human failures are inevitable but all the knowledge and experience gained in our widespread operations are focused on providing the complete satisfaction that will make every customer who enters our stores want to return.

One of the first steps is to determine what is needed, from the customer's standpoint, to provide that kind of satisfaction. This is not quite as simple as it may sound. Research studies have shown there can be many different sources of dissatisfaction ranging from the generality of an unfavorable impression of the store to something as specific as the type of checkstand used. Much more than simply satisfaction with the quality and price of a particular purchase is involved.

Store below shows Safeway look (see text), a basic standard-type design which sometimes is altered to comply with local architectural desires.

Determining customers' reactions to store features—what they like and dislike—is one important part of our research activities. Findings, tempered by operating experience, provide a basis for making many decisions such as: interior colors and lighting; width of aisles to avoid congestion; location of departments within the store; design of fixtures for both shopping ease and maximum quality protection of perishables, including butter, eggs and fresh fruits and vegetables.

In a way it could be said that the research activities just mentioned cover the *up-front* store operations—those that customers see. Of equal importance are other studies of ways to do that up-front job better and at a lower cost. These studies include: building designs to provide maximum attractiveness with minimum construction and maintenance costs; how to lower material handling costs involved in receiving merchandise and stocking shelves; scheduling employee numbers and hours to give best customer service at lowest cost—enough for peaks of customer traffic and not too many for valleys.

New Development In Inventory Management

Use of electronic data processing equipment for conducting a scientific inventory management program was inaugurated in 1964. The main objective of such a program is to minimize the total cost of purchasing and maintaining an inventory while providing a satisfactory warehouse supply service for the stores. In addition, however, the program is an aid to giving customers better service and better quality. Better service because it helps avoid being out of merchandise customers want. Better quality because it results in selling fresher merchandise.

This inventory management program was an extension of previously established uses of electronic data processing equipment in our operations. The others include: preparing dividend drafts received by Safeway's stockholders, computing and writing payrolls, and preparing reports for management. Still further uses are being developed to take full advantage of what this amazing equipment can do to provide better and faster information for making management decisions and at the same time reduce the cost of providing it.

This statistical section of the Annual Report may be removed, if desired, by simply lifting along perforated line at each staple.

Financial Report

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.

To the Board of Directors and the Shareholders of Safeway Stores, Incorporated:

We have examined the consolidated balance sheet of Safeway Stores, Incorporated and subsidiaries as of January 2, 1965 and the related statement of income and retained earnings for the fifty-three weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of Safeway Stores, Incorporated and subsidiaries at January 2, 1965 and the results of their operations for the fifty-three weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the summary of Source and Use of Funds for 1964 presented herein under Financial Highlights presents fairly the information shown therein.

San Francisco, California
March 5, 1965

Peat, Marwick, Mitchell & Co.

SAFEWAY STORES, INCORPORATED 1964

1964

Consolidated

As of January 2, 1965 (With Compara

Assets

	January 2, 1965	December 28, 1963
Current Assets		
Cash	$ 44,880,798	$ 52,249,994
Short term investments—at cost	2,445,972	1,979,658
Receivables	11,024,913	10,724,680
Merchandise inventories—at lower of cost or market	209,256,638	197,539,678
Prepaid expenses	10,522,049	8,104,487
Properties for development and sale within one year	19,846,625	11,978,035
Total Current Assets	297,976,995	282,576,532
Other Assets		
Funds segregated for redemption of 4% preferred stock	17,600,709	—
Investments in and advances to foreign subsidiaries not consolidated	10,188,909	5,713,487
Notes receivable and miscellaneous investments	3,951,404	2,500,974
Unamortized note and debenture issue expense	192,128	153,961
	31,933,150	8,368,422
Property		
Land, buildings, equipment, etc.—at cost	423,434,429	398,502,157
Less depreciation	196,015,960	181,391,936
	227,418,469	217,110,221
TOTAL	$557,328,614	$508,055,175

Notes to Financial Statements

NOTES AND DEBENTURES: The debentures, redeemable at varying premium rates prior to maturity, consist of: parent $14,332,000 at 4.25% interest, maturing $3,000,000 annually to maturity in 1969; Canadian subsidiary, $1,579,000 at 4.50% interest, maturing $200,000 in 1965, plus $120,000 sinking fund requirement annually to 1966 and then $360,000 annually to maturity in 1970 ($1,209,000 of debentures have been acquired to meet certain of future sinking fund requirements).

Notes payable (excluding miscellaneous notes of $569,271) consist of $30,000,000 of 4.65% term notes of the parent company due November 1, 1979. Prepayments of $3,000,000 per year are to commence May 1, 1970.

Under the indenture and agreements covering the parent's debentures and 4.65% term notes, $124,307,944 and $70,767,192, respectively, of the retained earnings as of January 2, 1965 are free of restrictions for dividend payments and acquisition of outstanding common stock. Certain other restrictions, including one upon creation of additional funded indebtedness, are imposed by both the indenture and note agreements.

CAPITAL STOCK: On January 18, 1965, the Board of Directors called for redemption on April 1, 1965, all of the 173,406 outstanding shares of the Company's 4% cumulative preferred stock at the redemption price of $101.50 per share. Common stock, par value $1.66⅔ per share, consists of authorized 27,000,000 shares, outstanding 25,330,754 shares (after deducting 45,968 shares in treasury). On December 28, 1964, the Company issued 12,665,377 shares to stockholders of record on November 23, 1964 to effect a two-for-one split of the outstanding shares in the form of a 100% stock dividend on other than treasury shares. All references to shares and prices have been restated to give effect to the split.

Of the unissued common stock of the Company, 905,630 shares are reserved for issuance pursuant to the Stock Option Plans of 1957 and 1963, authorizing the Board of Directors to grant to

1964

FINANCIAL HIGHLIGHTS A

	1964 (53 Weeks)
Operating Results[1]	
Sales	$2,817,569
Income before provision for income taxes	97,875
Provision for income taxes	47,895
Net income	49,980
Net income as a percent of sales	1.77%
Distribution of Earnings[1]	
Dividends to preferred stockholders	$ 735
Dividends to common stockholders	23,367
Earnings retained in the business	25,878
Per Share of Common Stock[2]	
Net earnings	$ 1.95
Depreciation	1.35
Cash flow	3.30
Dividends paid	.92½
Working capital	5.53
Book value	12.73
Price range New York Stock Exchange—Low-High	28-37¾
Financial Position (at end of year)	
Working capital [1]	$ 140,163
Current assets per dollar of current liabilities	1.89
Equity of common stockholders[1]	322,501
Other Statistics	
Number of employees (at end of year)	68,804
Approximate number of stockholders of record (at end of year)	58,100
Number of stores (at end of year)	2,099
Average annual sales per store[1]	$ 1,322
Source and Use of Funds[1]	
FUNDS PROVIDED FROM:	
Net income	$ 49,980
Charges to income not requiring funds: Depreciation provision	34,178
Provision for self insurance and decline in conversion value of Canadian assets	1,769
Increase (decrease) in long term debt	26,969
Total	$ 112,896
FUNDS USED FOR:	
Dividends to Company stockholders	$ 24,102
Additions to fixed assets (net)	44,486
Retirement of and from sale of capital stock (net)	411
Increase (decrease) in working capital	19,986
Increase (decrease) in other assets	23,565
Decrease (increase) in deferred income taxes	346
Total	$ 112,896

Note: (1) *In thousands of dollars.*
(2) *Adjusted for 2 for 1 stock split 11/23/64.*

AND SUBSIDIARIES

Statement of Consolidated Income and Retained Earnings

For the 53 Weeks Ended January 2, 1965 (with Comparative Figures for the 52 Weeks Ended December 28, 1963)

	1964	1963
Sales	$2,817,568,934	$2,649,711,512
Cost of Sales	2,199,096,686	2,074,012,509
Gross profit	618,472,248	575,699,003
Operating and Administrative Expenses	516,591,768	479,752,742
Operating profit	101,880,480	95,946,261
Other Deductions		
Interest on debentures and long term notes	1,047,160	1,139,390
Provision for decline in conversion value of Canadian assets	650,000	650,000
Provision for conversion to equity in nonconsolidated foreign subsidiaries	1,447,204	—
Other charges (income)—net	861,451	(589,034)
	4,005,815	1,200,356
Income before provision for income taxes	97,874,665	94,745,905
Provision for Federal, Canadian and other income taxes	47,895,000	49,930,000
Net Income	49,979,665	44,815,905
Retained Earnings at Beginning of Period	210,682,615	187,406,494
	260,662,280	232,222,399
Deduct:		
Cash dividends		
4.30% convertible preferred stock	18,236	45,778
4% preferred stock	717,019	792,162
Common stock	23,366,385	20,722,639
Additions resulting from stock conversions and acquisitions	(36,451)	(20,795)
	24,065,189	21,539,784
Retained Earnings at End of Period	$ 236,597,091	$ 210,682,615

EMPLOYEE RETIREMENT AND PROFIT-SHARING PLANS: Charges to income for Employee Retirement Plan contributions for the year amounted to $3,302,526 and for Profit-Sharing Plan contributions amounted to $4,651,908.

DEPRECIATION: The statement of income includes a charge for depreciation of $34,178,016 in 1964 and $32,229,870 in 1963.

FEDERAL INCOME TAX: In 1963, the Company treated 48% of its Federal income tax investment credit of $1,970,000 as a reduction of Federal income tax expense, and deferred the balance to offset the future effect of reduced tax depreciation. In accordance with the Revenue Act of 1964, which removed the effect of reduced tax depreciation, the Company has treated the tax investment credit for 1964 of $2,525,000 and the deferred balance from prior years as a reduction of Federal income tax expense for 1964.

SUBSIDIARIES: The accounts of the Canadian subsidiaries are consolidated as U.S. Funds at dollar for dollar with provision made for the decline in Canadian exchange below par by establishing a reserve through a charge to income. Other foreign subsidiaries are not consolidated and the investments and advances therein, $10,188,909, are shown in 1964 at U.S. dollar equity. In 1963 the investments were shown at cost which approximated equity. Such investments represent: 89% interest in the United Kingdom subsidiary; 98% in the Australian subsidiary and 100% in the West Germany subsidiary.

CONTINGENT LIABILITIES AND COMMITMENTS:

(a) The liability upon completion of contracts for construction of buildings and purchase of land not reflected in the financial statements amounted to approximately $17,400,000.

(b) Leases are in effect on 2,593 properties of which 2,010 contain options to cancel. Should the Company exercise these options, it could be required to purchase 1,700 properties. The minimum annual rental for 1965 under all leases (some of which contain percentages of sales clauses) is approximately $55,300,000. The corresponding figure for 2,100 leases extending beyond 1974 is approximately $51,000,000; for 362 extending beyond 1984 is approximately $9,500,000 and for 54 extending beyond 1989 is approximately $700,000.

SAFEWAY STORES, INCORPORATED

Balance Sheet

ive Figures as of December 28, 1963)

Liabilities and Stockholders' Equity

	January 2, 1965	December 28, 1963
Current Liabilities		
Debentures	$ 2,532,000	$ 5,767,000
Payables and accruals	128,103,091	125,887,530
Federal, Canadian and other income taxes	27,179,008	30,745,371
Total Current Liabilities	157,814,099	162,399,901
Long Term Liabilities and Reserves		
Notes and debentures	43,948,271	16,677,000
Deferred income taxes	3,008,630	3,354,542
Preferred stock of Canadian subsidiary held by public—par value	7,139,600	7,441,400
Reserve for self insurance and decline in conversion value of Canadian assets	5,576,817	3,808,103
	59,673,318	31,281,045
Stockholders' Equity		
Preferred stocks	17,340,600	19,823,000
Common stock	42,217,923	20,954,235
Additional paid-in capital	43,685,583	62,914,379
Retained earnings	236,597,091	210,682,615
	339,841,197	314,374,229
TOTAL	$557,328,614	$508,055,175

officers and employees of the Company and its subsidiaries restricted options (qualified options as to those granted after January 1, 1964 under the 1963 Plan, as amended in 1964) to purchase common stock in consideration of their agreements not to terminate their employment before fixed dates. All matured options become void unless exercised within three months after employment terminates, with a one-year extension on employee's death under both Plans, and, in any event, not later than December 31, 1967 for those granted under the 1957 Plan or ten years (five years as to those granted after January 1, 1964) after the date of granting under the 1963 Plan.

At the beginning of the year options for 584,060 shares were outstanding at a total option price of $14,661,693. During the year, options for 37,000 shares were granted at the option price of $36.75 per share; options for 63,920 shares granted under the 1957 Plan were exercised at a total option price of $1,055,982; options for 14,000 shares (which are subject to reallocation) and 9,800 shares (which are not subject to reallocation) became void due to death or termination of employment and no changes occurred during the year in the exercise price of outstanding options, except price changes resulting from the normal operation of the anti-dilution provisions of the option agreements. At the end of the year options for 276,940 shares under the 1957 Plan and 256,400 shares under the 1963 Plan were outstanding which are or will become exercisable as follows: 13,800 shares at $12.8125 per share; 32,850 at $16.0625; 65,000 at $18.2813; 12,100 at $18.3438; 27,120 at $19.6563; 8,300 at $19.75; 10,000 at $24.5625; 107,770 at $29.2813; 219,400 at $30.5938; and 37,000 at $36.75. At the beginning of the year 395,290 unoptioned shares were available for granting and 372,290 were available at the end of the year.

ADDITIONAL PAID-IN CAPITAL: Changes in 1964 consist of: $831,971 excess of 4.30% convertible preferred stock par value over that of common stock issued on conversion less $29,491 pro rata share of original issue expense and premium on redemption; $1,002,715 excess of proceeds over par value of common stock issued under options exercised; $74,971 discount on 4% preferred stock acquired; $21,108,962, representing par value of 12,665,377 shares of common stock issued in two-for-one split of outstanding shares in the form of a 100% stock dividend on other than treasury shares, transferred to common stock.

AND TEN-YEAR SUMMARY

1963	1962	1961	1960	1959 (53 Weeks)	1958	1957	1956	1955
2,649,712	2,509,644	2,538,032	2,468,973	2,383,011	2,225,352	2,117,314	1,989,305	1,932,243
94,746	83,326	78,587	75,178	76,511	69,874	65,018	53,361	27,330
49,930	44,055	41,985	40,360	40,810	36,468	34,111	27,955	13,708
44,816	39,271	36,602	34,818	35,701	33,406	30,907	25,406	13,622
1.69	1.56	1.44	1.41	1.50	1.50	1.46	1.28	.70
838	903	1,021	1,082	1,130	1,197	1,392	1,941	2,272
20,723	20,052	19,045	17,676	15,415	13,461	10,767	8,819	8,386
23,255	18,316	16,536	16,060	19,156	18,748	18,748	14,646	2,964
1.75	1.53	1.43	1.36	1.40	1.32	1.24	1.07	.54
1.28	1.24	1.26	1.18	1.13	1.03	1.00	1.03	.96
3.03	2.77	2.69	2.54	2.53	2.35	2.24	2.10	1.50
.82½	.80	.76¼	.71¼	.62½	.55	.45	.40	.40
4.78	4.70	4.96	4.34	4.59	4.32	4.67	4.60	4.55
11.71	10.78	10.04	9.36	8.70	7.76	7.15	6.32	5.51
22¾-32⅜	18⅛-30⅛	18⅜-31⅞	16¼-20¼	17⅜-21⅛	12¼-20⅞	10⅛-13¾	8½-11⅞	7⅛-9⅝
120,177	117,902	124,085	108,611	113,285	106,173	113,347	105,964	95,585
1.74	1.81	1.89	1.78	1.86	1.81	1.90	1.80	1.57
294,551	270,298	251,326	232,606	215,080	190,871	173,688	145,513	115,681
66,605	63,120	60,896	63,507	63,149	59,555	57,356	54,949	54,257
58,900	59,900	58,600	59,000	59,000	54,917	43,224	39,316	39,315
2,059	2,069	2,054	2,207	2,164	2,117	2,033	1,981	1,988
1,250	1,183	1,131	1,101	1,088	1,050	1,029	976	951
44,816	39,271	36,602	34,818	35,701	33,406	30,907	25,406	13,622
32,230	30,970	31,435	29,177	27,805	25,270	23,854	22,671	20,082
609	1,799	700	—	—	—	—	—	—
(6,699)	(6,480)	(6,031)	(7,445)	(7,021)	(8,483)	(8,120)	(10,916)	5,715
70,956	65,560	62,706	56,550	56,485	50,193	46,641	37,161	39,419
21,561	20,955	20,066	18,758	12,569	18,635	12,159	10,760	10,658
46,281	46,658	28,126	43,525	36,833	38,762	27,934	16,375	51,217
617	1,707	294	13	(274)	403	(898)	(607)	286
2,275	(6,184)	15,474	(4,674)	7,112	(7,175)	7,384	10,379	(22,304)
1,736	3,724	(714)	(1,072)	245	(432)	62	254	(438)
(1,514)	(1,300)	(540)	—	—	—	—	—	—
70,956	65,560	62,706	56,550	56,485	50,193	46,641	37,161	39,419

Customers Determine Store Stocking Plans

With some exceptions, due to local building codes or the request of communities to have our building maintain an architectural harmony that has been established, a standardized design is used for our new stores. This is done to effect construction economies and to achieve a *Safeway Look* for quick identification wherever our stores are located. The arrangement of departments within the store also follows certain standardized patterns. This is done to help make Safeway customers feel comfortable and at home in any Safeway store where they may shop. Studies have shown that a common complaint of women is that they are not able to find something when they shop in a store other than the one they regularly patronize.

The store stocking plan, however, varies considerably between stores. Selection of products to be stocked is tailored to meet the demands of the customers of each store. This is a very important part of planning for customer satisfaction.

One example is our store in Sun City, Arizona (see photo). This is a retirement community 12 miles northwest of Phoenix. Residents, all of whom are 50 years of age or older, represent every state in the Nation, yet their preferences, insofar as our store is concerned, seem to follow a similar pattern.

Safeway is favorite meeting place for Sun City residents.

The stocking plan of this store is adjusted to meet those preferences. There is a demand for very expensive items such as colossal white asparagus tips selling for 98¢ a can. Baby foods and dietetic drinks are very popular because many Sun Citians are diet conscious. Yet, assorted sweets, candies, and ice cream are big sellers and sales

Facade of our new International Store in Washington, D.C., one of world's finest epicurean centers (see text).

Above, left, section of interior of our International Store, featuring foods from countries throughout the world. Photo at right shows crowd at opening on October 29, 1964; foreign diplomats were among dignitaries attending the ceremonies.

of our Lucerne Half & Half (milk and cream) are many times higher than in other stores.

The flexibility in our operations to meet local conditions also is illustrated by our International Store which was opened in Washington, D.C. during October. In addition, it is an example of pioneering an entirely new food store concept.

Located at 12th and F Streets in the downtown area of Washington, D.C., the meeting place of all the nations in the world, the store was planned to appeal to the people of all nations. Actually it is two stores in one. On the level that faces on 12th Street is a regular Safeway store, and on an upper level facing on F Street is an entirely new kind of store called our "International Store" (see photos).

In it customers find delicacies from the world over, including choice, unusual items from our own country. Products stocked include white boar steaks, snow hare, suckling pigs, reindeer steaks, Beef Stroganoff, brioche, croissants, chutney, shishkebabs, Syrian bread, baby abalone from Japan, stuffed grape leaves from Greece, baklava with almonds, Hungarian fruit pockets, and chukkar partridges.

Non-Foods Space Ranges From A Section To a Store

Some non-food items such as soap, cleansers and paper products have been sold in food stores for years. The increase in number of items (one of the reasons for recent increases in total food store sales), has come from the addition of items not previously stocked, such as health and beauty aids, kitchenware and glassware.

Our plan for keeping step with this development is to *cut the cloth to fit the pattern* of the non-food sales potential of each store. In some cases, only a small addition to the display fixtures used for non-foods, or a change in the variety of products stocked, is needed. In others, a large non-foods department is added to the store. In still others, a Safeway Super S store, which is a complete and separate non-foods store, supplements our regular food store.

An example of a large non-foods department that has been added is illustrated on page 11. As you will see, it includes a wide variety of non-food items. Typically, one of these departments occupies 6,000 to 8,000 square feet

A mass of merchandise, featuring brands known for quality and

In recent years, sales of non-food items have increased. To meet this demand, particularly where a Safeway Super $ is not feasible, some stores have expanded non-foods dept. Example, above, is our store in Santa Rosa, California.

and stocks about 12,000 items. During 1964 four stores with these large non-foods departments were opened.

Interior of a typical Safeway Super $ store is pictured on page 11. Wherever possible, these stores are located alongside a Safeway store in the same building. As shown by the illustration on the inside front cover of this report, the two stores have a common lobby which provides easy customer movement from one to the other.

Size of a typical Safeway Super $ store is 22,000 to 24,000 square feet. It offers a wide range of merchandise including such items as: small appliances, toiletries, toys, gifts, sporting equipment, power tools, cameras, hardware, paint, etc. totaling about 42,000 items. By comparison, a typical Safeway store will stock from 7,000 to 8,000 items. Most Safeway Super $ stores also include a pharmacy. During 1964 twenty-two Safeway Super $ stores were opened bringing the total at year-end to twenty-eight.

offered at popular prices, is stocked at Safeway Super $ stores. A portion of one, in San Jose, Calif., is shown below.

Welcome sign was not out when these photos were taken. Left, lobby of our store in Crescent City, Calif., after seismic wave deluged area, aftermath of Alaskan earthquake on March 27, 1964. Anchorage, where other photo was taken, suffered extensive damage. Spirit of employees, rushing to restore service, was highly praised by townsfolk.

Success Is a Warm Feeling

Success in our efforts to satisfy customers and to serve a community well usually is evidenced in sales growth based on repeat business from an increasing number of customers who return time and again to shop with us. Last year the Alaska earthquake brought the evidence in a different way.

In Anchorage our Safeway and Safeway Super stores were a shambles, with very little merchandise left on any shelving. Light fixtures fell from the ceilings, panes of glass were lost, and cracks opened up in the floors.

Civil defense authorities, faced with a city that lay in virtual ruin—no water, no electricity, no heat, and no food outlet—urged Safeway to make every effort to maintain a source of food supplies.

Safeway employees worked with lamp light; they built fires in the parking lot, thawed snow to get water for drinking and for floor washing; they removed damaged goods, sorted and re-arranged the merchandise. Within 24 hours after the quake, local authorities were astounded and elated to find our stores in business, supplying, at pre-

Storms deluging Pacific Coast areas during 1964 Christmas holiday season uprooted houses, razed bridges, tore up highways. To get food into some critical regions, we flew in perishables; non-perishables went on barges from S.F.-Oakland.

(Russ Reed Photo)

Above photo was taken shortly after major 'quake toppled buildings and cleaved roads in Anchorage, Alaska, leaving an aftermath of indescribable havoc. Fortunately our stores escaped serious structural damage, despite merchandise losses. This proved fortuitous as we were able to replenish stock, re-open during the early stages of critical food shortages.

earthquake prices, food and other necessities to several organizations for the mass feeding and helping of homeless people.

In Crescent City, California, a huge seismic wave resulting from the Alaska quake hit the city at 1:40 a.m. Our store was completely knocked out of business by the flood waters. Fish were actually swimming inside. The clean-up job was gigantic. But here, as in Anchorage, dedicated Safeway people recognizing the urgent need for re-establishment of a source of food supply, aided by scores of customers and others who volunteered to share the labor, worked day and night to re-open the store. This was accomplished in ten days and it was the first retail food store to re-open.

Re-opening of the stores in both Anchorage and Crescent City and resumption of the services they offered brought many touching expressions of deep appreciation from residents of both cities. To them Mr. Magowan added: "What great people we have working for us. Wonderful, just wonderful. They make us all feel very proud."

Success *is* a warm feeling.

Water was still rising when this photo was taken in popular resort town of Guerneville, Calif., as Russian River spilled over countryside during West's worst storm. Water reached 6-foot level in our store before subsiding.

Let the Seller Beware

Our quest for complete knowledge of the why's and wherefore's of food shopping habits includes studies of the reasons why women stop shopping at a particular store as well as why they start and continue to shop there.

As would be expected, experiences with poor quality show up as a major reason for changing stores. Obviously, purchases of meat that was tough or produce that was not fresh, typically reported experiences of poor quality, would be reasons for discontinuing shopping at a store.

Consideration of quality, however, does not stop there. Studies in this area disclose how accurately women relate quality and price to measure value. Value comparisons show up as strong reasons for purchasing a particular package or shopping at one store instead of another.

This may come as a surprise to some people who do not have an opportunity to observe women shoppers in action every day and become concerned about their interests. Actually the shoe is on the other foot. It is clear that delivering poor quality or not giving good value is one of the surest ways to lose customers. It's a case of let the seller, not the buyer, beware.

Quality Improvement Efforts Continue

Our search for ways to offer better quality products covers many different areas. Following are a few examples.

Fresh fruits and vegetables present some of the most difficult quality problems because of the highly perishable nature of the products involved. Great progress has been made in working with producers in their efforts to improve quality and in finding ways to preserve that quality for our customers to enjoy. This work is continuing.

During 1964 a new way to improve produce quality was explored. We were the first food retailer to work with the Whirlpool Corporation in carrying on practical selling experiments with fruits and vegetables protected by their Tectrol® process. This is a new way to control the atmospheric conditions in which fruits and vegetables are held to maintain just-picked freshness and flavor for longer times than were previously possible. The objective is to assure peak freshness characteristics for both in-season and out-of-season products when they are sold in stores.

Last year one of our meat-quality projects was cooperation with beef cattle producers in further cutting-tests made for the purpose of helping them improve beef quality and the value of their livestock.

In this test, representative beef cattle were selected by feeders, slaughtered by a San Francisco packer and graded for quality. Safeway meat cutters then broke the carcasses down into boneless, closely trimmed retail cuts, and recorded weight yields of each retail cut, the salvage fat and bone, and the cutting loss. Results then were used as a basis for judging the quality, cutability, and therefore the value characteristics of each of the carcasses. Tests of this kind provide a guide for development of improved breeds and feeding that will bring greater returns to producers and lower the costs and waste in the marketing of meats through to the final preparation of retail cuts.

Similar cooperation was given in an experiment to determine the relative merits of Colorado-bred Herefords, Angus and cross-breds as opposed to the same breeds from other areas. This experiment is being checked by the Animal Science Department of Colorado State University.

These tests and cooperation with other producer programs have brought many comments about Safeway's interest in meat quality. One producer expressed it this way, "Safeway has been a major influence in encouraging beef producers to shoot for top quality. Your policy of buying only the top USDA Grades definitely benefits everyone. It is inferior grades of beef that hurt the meat industry."

Such comments and the many expressions of appreciation for cooperation that we received make it clear that many producers do not agree with the charges, made by a few who are not acquainted with the facts, that it is Safeway's buying practice to beat down prices paid to producers. Actually, doing that would be an effective way to shut off the supplies of better quality beef that we seek, want, and need to satisfy our customers.

In the handling of eggs, innovations and improvements made by our people over the years have given Safeway an outstanding reputation for egg quality. During 1964 further improvements were made by having more and more of the producers that supply our eggs grade, package and ship them directly from their ranches to our warehouses. Freshness is improved by shortening the marketing time from producer to consumer by two or three days. In addition, this method of handling is more economical.

A Salute To Suppliers

Most of our dollar volume comes from the sale of products such as the so-called dry groceries, canned and frozen foods, health and beauty aids and other non-foods supplied by thousands of processors and manufacturers. Their activities—development of new products, packaging improvements, development of better and more economical methods of transportation and warehousing—are extremely important and valuable to us.

We are very conscious of our relationship with these suppliers and feel that we have a strong mutual interest in working closely with them. This is done in a number of different ways, including cooperation in testing new products, new packaging, effectiveness of different advertising programs, new display ideas, etc. We appreciate what suppliers do to give us and other food retailers better and more attractive merchandise to offer customers and we try hard to earn their respect and confidence.

The Right Person, In the Right Place, At the Right Time

Moving in excess of 5 million tons of merchandise through more than 2,000 stores, which was done in 1964, is a very complex operation. It requires an enormous capital investment for physical facilities and equipment, coupled with close meshing of the many different parts of our operation, starting with buying or manufacturing and finishing with carrying out purchases to customers' cars.

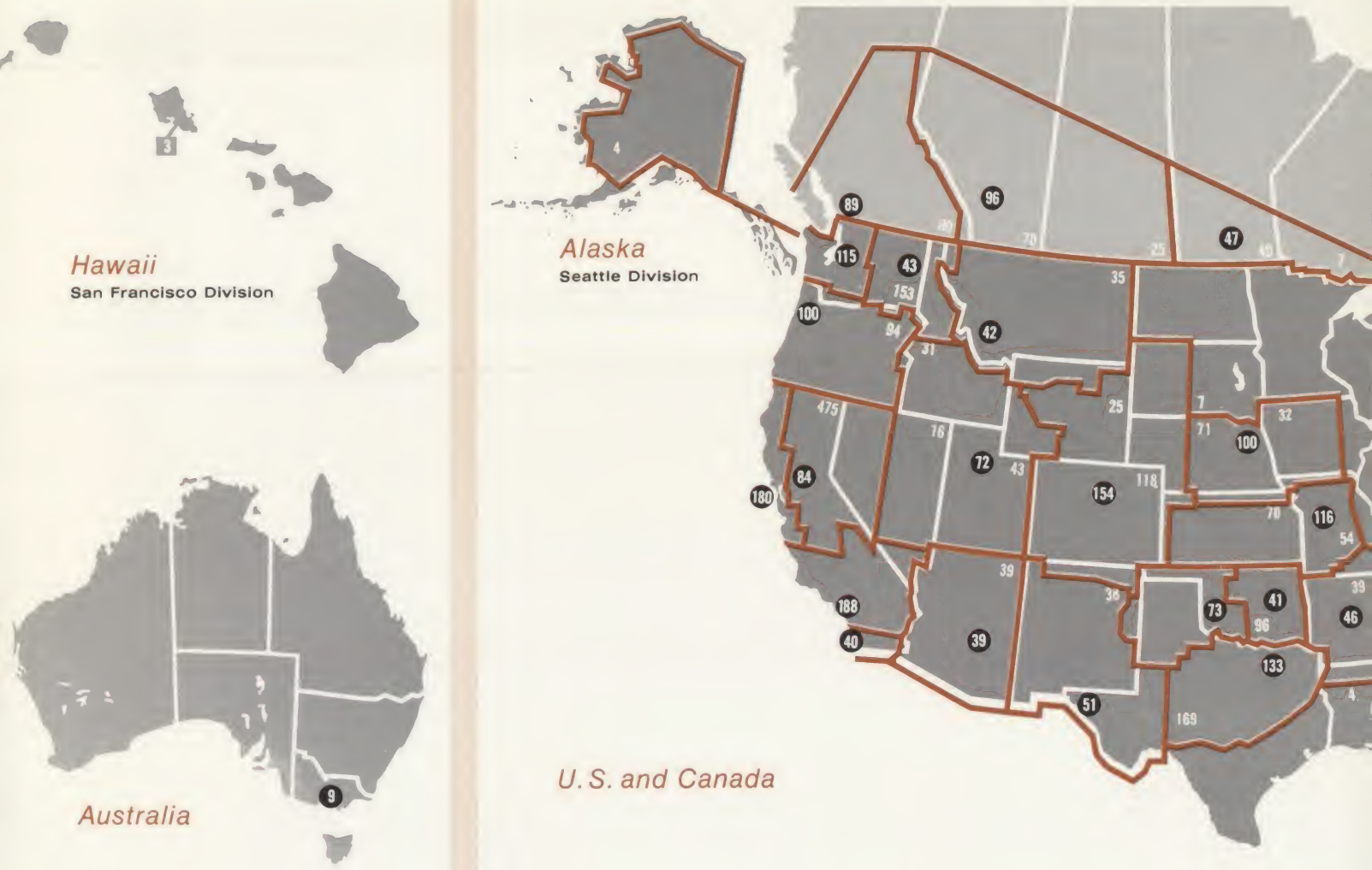
Also needed is the close cooperation of more than 67,000 people having many different specialized skills. Many of these skills such as those of engineers, architects, chemists, economists, and electronics experts, are not ordinarily associated with the operation of a food store. Chances are that almost any job you could name is found on the Safeway employment roster. In the final analysis, everything depends upon people—having the right man or woman in the right place at the right time.

The Safeway record of progress attests to the ability of Safeway people to produce outstanding sales and profit results. At the same time, growth increases the need for the "right man or woman." No problem receives more attention than the development of people qualified to take on better jobs in every department.

During 1964, efforts to recruit people with management potential were increased and training programs were stepped up. Our Executive Development Program is a part of this activity. One of the groups that participated in it last year is pictured below. Other parts include local training schools in the different Divisions and on-the-job training in all departments.

Accomplishments and progress of employees who have participated in these different training programs are significant and encouraging evidence that the programs are producing the desired results. They are also evidence that a solid base of qualified and trained people is being built for the future.

Training programs are a seed in the present and a plant for the future. Each phase enables employees to improve skills, benefiting both themselves and the Company. Group below attended Executive Development Program sessions in Oakland, an 8-week course undertaken by 144 supervisory employees since inception of program in 1960.



OUR OPERATIONS TODAY

SAFEWAY STORES: Literally half-way around the world, on three continents, the $ insigne of our Company is becoming a household symbol among shoppers. At year's end we had a total of 2,102 Safeway stores located in the United States, Canada, England, West Germany, and Australia (not shown on map: our first store in Scotland, opened early part of 1965).

Maps show number of stores in each Retail Division (numerals within circles); figures correspond with those preceding listing of each Division Manager, at right. Figures not encircled are the number of Safeway stores within the state or province. Regional Managers in U. S. report to Senior Vice President Quentin Reynolds, as does the Washington, D. C., Division. Regional Manager for Canadian retail operations reports direct to the President.

SAFEWAY SUPER $: Not indicated on map are the 28 Safeway Super $ stores, under the direction of Vice President Glynn E. Tucker. These stores are now in the following 10 states: Alaska (1), Arizona (3), California (12), Colorado (1), Missouri (1), Nebraska (2), New Mexico (1), Texas (4), Utah (1), Virginia (1); also Washington, D.C. (1).

GUS H. PARKER
Regional Manager

188 D. B. KANE
Los Angeles Division

100 FRED E. MACRAE
Portland Division

84 K. W. HUNTINGTON
Sacramento Division

180 GUS H. PARKER
San Francisco Division

115 C. A. BRADBURN
Seattle Division

43 L. M. PRINGLE
Spokane Division

United Kingdom

1964

West Germany
United Kingdom Division

HENRY CLAY
Regional Manager

- 133 C. C. FOSTER — Dallas Division
- 51 ROBERT L. JAYNES — El Paso Division
- 46 H. A. JUSTICE — Little Rock Division
- 73 R. E. TEMPLEMAN — Oklahoma City Division
- 39 HENRY J. FRANK — Phoenix Division
- 40 EARL W. SMITH — San Diego Division
- 41 FRED E. ROWLAND — Tulsa Division

R. L. CAMPBELL
Regional Manager

- 42 W. E. MURRAY — Butte Division
- 154 R. L. CAMPBELL — Denver Division
- 116 FRANK J. GLASGOW — Kansas City Division
- 100 PAUL K. HENDRIX — Omaha Division
- 72 HOWARD BARTON — Salt Lake City Division

W. J. KRAFT
Regional Manager

- 96 A. G. ANSELMO — Prairie Division
- 89 W. J. KRAFT — Vancouver Division
- 47 W. F. GRIFFITHS — Winnipeg Division

- 9 GEORGE E. RUDOLPH — Australian Division
- 222 BASIL WINSTEAD — Washington, D. C. Division
- 22 DAVID LAUB — United Kingdom Division

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